



Financial Statements
December 31, 2021 and 2020
Richmond Lake Sanitary District

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Independent Auditor's Report

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Richmond Lake Sanitary District as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Richmond Lake Sanitary District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Richmond Lake Sanitary District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Richmond Lake Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Richmond Lake Sanitary District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Richmond Lake Sanitary District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2022, on our consideration of the Richmond Lake Sanitary District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Richmond Lake Sanitary District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richmond Lake Sanitary District’s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Aberdeen, South Dakota
July 7, 2022

Richmond Lake Sanitary District
Statements of Net Position – Proprietary Fund
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash	\$ 210,917	\$ 91,069
Accounts receivable	3,319	4,919
Notes receivable	3,753	3,753
Taxes receivable - current	30,532	30,085
Taxes receivable - delinquent	-	19
Parts inventory	13,011	11,099
Certificates of deposit	213,159	312,694
Total current assets	474,691	453,638
Property and Equipment, at Cost		
Piping and appurtenances	995,589	995,590
Lift stations	7,380	7,379
Residential pump stations	440,932	440,932
Fencing and gates	37,594	37,594
Manholes	105,843	105,843
Pond structures	295,102	295,102
Wastewater stabilization pond facility	191,023	191,023
Pumps, panels, and septic tanks	113,344	106,341
Office furniture and equipment	8,719	9,218
Buildings	899	899
Land rights and easements	21,000	21,000
	2,217,425	2,210,921
Accumulated depreciation	(1,387,481)	(1,342,980)
Total property and equipment, net	829,944	867,941
Other Assets		
Security deposit	64	64
Prepaid storage	260	260
Prepaid inventory	19,136	-
Total other assets	19,460	324
Total assets	\$ 1,324,095	\$ 1,321,903

Richmond Lake Sanitary District
 Statements of Net Position – Proprietary Fund
 December 31, 2021 and 2020

	2021	2020
Liabilities and Net Position		
Current Liabilities		
Unearned revenue	\$ 21,731	\$ 16,833
Accounts payable	615	-
Payroll taxes payable	1,732	2,219
Total liabilities	24,078	19,052
Net Position		
Net investment in capital assets	829,944	867,941
Unrestricted	470,073	434,910
Total net position	1,300,017	1,302,851
Total liabilities and net position	\$ 1,324,095	\$ 1,321,903

Richmond Lake Sanitary District
 Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund
 Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenue		
User fees	\$ 120,525	\$ 119,701
Septic tank replacement fees	20,208	19,990
Late fees	205	505
System upgrade fees	1,478	-
Maintenance fees	4,861	4,400
Hook-up fees	-	7,000
Total operating revenue	<u>147,277</u>	<u>151,596</u>
Operating Expenses		
Wages	24,189	26,309
Professional fees	10,318	9,549
Postage and office supplies	1,476	687
Insurance	3,294	4,502
Utilities	5,147	5,970
Public notices and elections	28	137
Payroll taxes	1,842	1,909
Printing	-	206
Repairs and maintenance	71,329	68,032
Other operating expenses	9,587	16,060
Miscellaneous expense	722	943
Mileage	1,386	1,687
Office rent	7,800	5,400
Storage fee	1,560	780
Depreciation	47,000	46,425
Total operating expenses	<u>185,678</u>	<u>188,596</u>
Operating Loss	<u>(38,401)</u>	<u>(37,000)</u>
Nonoperating Revenues		
Interest income	4,473	9,146
Taxes	31,094	30,589
Total nonoperating revenues	<u>35,567</u>	<u>39,735</u>
Change in Net Position	(2,834)	2,735
Net Position, Beginning of Year	<u>1,302,851</u>	<u>1,300,116</u>
Net Position, End of Year	<u>\$ 1,300,017</u>	<u>\$ 1,302,851</u>

Richmond Lake Sanitary District
 Statements of Cash Flows – Proprietary Fund
 Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from customers	\$ 153,775	\$ 153,280
Payments to employees	(26,518)	(28,110)
Payments to suppliers	(136,660)	(116,605)
Net Cash from (used for) Operating Activities	(9,403)	8,565
Noncapital Financing Activities		
Taxes received	30,666	32,022
Net Cash from Noncapital Financing Activities	30,666	32,022
Capital and Related Financing Activities		
Purchase of property and equipment	(5,423)	(25,347)
Net Cash used for Capital and Related Financing Activities	(5,423)	(25,347)
Investing Activities		
Interest received	107	243
(Purchase) redemption of certificates of deposit	103,901	(50,000)
Net Cash from (used for) Investing Activities	104,008	(49,757)
Net Change in Cash	119,848	(34,517)
Cash at Beginning of Year	91,069	125,586
Cash at End of Year	\$ 210,917	\$ 91,069
Reconciliation of Operating Loss to Net		
Cash from (used for) Operating Activities		
Operating loss	\$ (38,401)	\$ (37,000)
Charges and credits to operating loss not affecting cash:		
Depreciation expense	47,000	46,425
Changes in assets and liabilities:		
Accounts receivable	1,600	(623)
Other receivables	-	284
Parts inventory	(5,492)	(2,652)
Prepaid inventory	(19,136)	-
Unearned revenue	4,898	2,023
Accounts payable	615	-
Payroll taxes payable	(487)	108
Net Cash from (used for) Operating Activities	\$ (9,403)	\$ 8,565
Noncash Investing, Capital and Financing Activities		
Parts inventory placed into service as property and equipment	\$ 3,580	\$ 6,915

Note 1 - Significant Accounting Policies

The accounting policies of Richmond Lake Sanitary District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant accounting policies.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) pronouncements, the District should include all component units over which the District exercises such aspects as (1) appointing a voting majority of an organization's governing body; and (2) has the ability to impose its will on that organization; or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District.

Based on these criteria, no legally separate organizations were determined to be part of the reporting entity.

Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and reporting.

The statements of net position and revenues, expenses and changes in net position present the business-type activities of the District, which are all of the financial activities and represent the government-wide financial statements.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with a proprietary fund's principal ongoing operations. The District records all revenues derived from fees as operating revenues since these revenues are generated from the District's daily operations needed to carry out its purpose. Operating expenses include administrative, operating, and maintenance expenses related to operation of the District's sanitary system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise Fund: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as enterprise funds.

The District has one enterprise fund, which is reported as a major fund, to record the transactions related to operating a sanitary sewer system through fees and charges to users of the system.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The enterprise fund is presented using the economic resources measurement focus and the accrual basis of accounting.

Property and Equipment

All property and equipment are valued at historical cost. Interest costs incurred during construction of property and equipment are capitalized along with other costs of the asset. The District’s capitalization policy is \$400. Depreciation of all exhaustible property and equipment used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund statements of net position. Depreciation has been provided over estimated useful lives using the straight-line method as follows:

Piping and appurtenances	50 years
Lift and residential pump stations	5-20 years
Fencing, gates, manholes, pond structures, and septic tanks	20 years
Wastewater pond facility	20 years
Pumps and control panels	5 years
Office furniture and equipment	5-20 years
Buildings	39 years
Easements	99 years

The District reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2021 and 2020.

Unearned Revenues

Unearned revenues represent user, hookup and maintenance fees received in advance of when services are provided.

Statements of Cash Flows

The District considers all amounts held in all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less to be cash for purposes of the statements of cash flows.

Certificates of Deposits

Certificates of deposit classified in the financial statements consist entirely of those whose term to maturity at date of acquisition exceeds three months. Certificates of deposit are carried at cost plus accrued interest.

Accounts Receivable

Accounts receivable are composed of amounts owed to the District by residents for services rendered. Accounts receivable are charged-off as they are deemed uncollectible based on a periodic review of the accounts. The amount charged as bad debt in 2021 and 2020 was \$0. At December 31, 2021 and 2020, no allowance for uncollectible accounts has been recorded, as uncollectible amounts are not expected by management to be material.

Parts Inventory

Parts inventory are valued at cost.

Net Position

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. There was no restricted net position as of December 31, 2021 and 2020.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Application of Net Position

It is the District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

User and Septic Tank Replacement Fees

The user and septic tank replacement fees are monthly charges for all users. The user fees finance the general operations of the District. The septic tank replacement fee is used to replace septic tanks when needed.

Note 2 - Deposits and Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk – Deposits

Custodial credit risk – deposits is the risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2021 and 2020, the District maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2021 and 2020, were as follows:

	2021	2020
Insured (FDIC/NCUA)	\$ 427,139	\$ 345,768
Uninsured, collateral jointly held by State's/District's agent in the name of the State and the pledging financial institution	-	62,694
	<u>\$ 427,139</u>	<u>\$ 408,462</u>

The District's carrying amounts of deposits at December 31, 2021 and 2020, were \$424,076 and \$403,763, respectively.

Investments

In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2021 and 2020, the District did not hold any investments as defined by Governmental Accounting Standards Board. The District also does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk.

Note 3 - Organization

An election on June 16, 1992, authorized the District to operate a sanitary sewer system pursuant to South Dakota Codified Law (SDCL) 34A-5-41. In accordance with SDCL 34A-5-14.1, the District is governed by an elected three-member Board of Trustees.

Note 4 - Property Tax

Property taxes are attached as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. The District's property tax revenues are recognized in accordance with the accrual basis of accounting. The District is permitted by state statute to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District.

Note 5 - Notes Receivable

The District has notes receivable from property owners within the District for debt service assessments relating to construction of the system and upgrades. The notes accrue interest ranging from 5% to 5.75% and as of December 31, 2021 and 2020, are all considered current. The balances outstanding as of December 31, 2021 and 2020, total \$3,753 and \$3,753, respectively.

Note 6 - Changes in Capital Assets

A summary of changes in capital assets for the years ended December 31, 2021 and 2020, is as follows:

<u>Proprietary Fund</u>	Balance 1/1/2021	Increases	Decreases	Balance 12/31/2021
Capital assets not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Total capital assets not being depreciated	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets being depreciated:				
Piping and appurtenances	995,590	-	-	995,590
Lift stations	7,379	-	-	7,379
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	295,102	-	-	295,102
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	106,341	7,003	-	113,344
Office furniture and equipment	9,218	2,000	2,499	8,719
Land easements	20,000	-	-	20,000
Buildings	899	-	-	899
	<u>2,209,921</u>	<u>9,003</u>	<u>2,499</u>	<u>2,216,425</u>
Less accumulated depreciation	<u>1,342,980</u>	<u>47,000</u>	<u>2,499</u>	<u>1,387,481</u>
Total capital assets being depreciated, net	<u>866,941</u>	<u>(37,997)</u>	<u>-</u>	<u>828,944</u>
Proprietary fund activities capital assets, net	<u>\$ 867,941</u>	<u>\$ (37,997)</u>	<u>\$ -</u>	<u>\$ 829,944</u>
Total depreciation expense - proprietary fund activities				<u>\$ 47,000</u>

<u>Proprietary Fund</u>	Balance 1/1/2020	Increases	Decreases	Balance 12/31/2020
Capital assets not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Total capital assets not being depreciated	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets being depreciated:				
Piping and appurtenances	995,590	-	-	995,590
Lift stations	220,183	-	212,804	7,379
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	295,102	-	-	295,102
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	74,079	32,262	-	106,341
Office furniture and equipment	12,433	-	3,215	9,218
Land easements	20,000	-	-	20,000
Buildings	899	-	-	899
	<u>2,393,678</u>	<u>32,262</u>	<u>216,019</u>	<u>2,209,921</u>
Less accumulated depreciation	<u>1,512,574</u>	<u>46,425</u>	<u>216,019</u>	<u>1,342,980</u>
Total capital assets being depreciated, net	<u>881,104</u>	<u>(14,163)</u>	<u>-</u>	<u>866,941</u>
Proprietary fund activities capital assets, net	<u>\$ 882,104</u>	<u>\$ (14,163)</u>	<u>\$ -</u>	<u>\$ 867,941</u>
Total depreciation expense - proprietary fund activities				<u>\$ 46,425</u>

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2021 and 2020, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance benefits to its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; automobile liability; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation

The District purchases liability insurance for workers' compensation from a commercial carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District elected not to designate equity for the payment of future unemployment benefits. During the years ended December 31, 2021 and 2020, no claims for unemployment benefits were paid. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next year.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Richmond Lake Sanitary District (the District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Richmond Lake Sanitary District’s basic financial statements and have issued our report thereon dated July 7, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Richmond Lake Sanitary District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Richmond Lake Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Richmond Lake Sanitary District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Richmond Lake Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Richmond Lake Sanitary District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Richmond Lake Sanitary District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Aberdeen, South Dakota
July 7, 2022

Prior Audit Findings

2020-001 Finding – Auditor Preparation of Financial Statements, Footnotes, and Proposed Audit Journal Entries

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As part of the financial statement preparation process, the auditor proposed material audit adjustments to the financial statements.

Status: The finding has not been corrected and has been restated as current audit finding 2021-001.

2020-002 Finding – Lack of Segregation of Duties

There was a lack of segregation of duties in the revenues, expenditure, and payroll functions due to the limited staff size of the District.

Status: The finding has not been corrected and has been restated as current audit finding 2021-002.

Current Audit Findings

Finding 2021-001 – Auditor Preparation of Financial Statements, Footnotes, and Proposed Audit Journal Entries

Material Weakness

Criteria: The District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for processing and recording all entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: Richmond Lake Sanitary District requested the external auditors to assist in the preparation of the financial statements and related footnotes. As part of the financial statement preparation process, we proposed certain audit adjustments, some of which were material, to be made to the financial statements that were not identified as a result of the District's existing internal controls and, therefore, could result in a material misstatement of the District's financial statements.

Cause: The District does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to propose material journal entries during the course of the audit.

Effect: This condition may affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management agrees with the finding.

Finding 2021-002 – Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. Proper segregation of duties also allows for the proper review of account reconciliations and manual adjusting journal entries.

Condition: Richmond Lake Sanitary District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual adjusting journal entries functions because of a lack of segregation of duties.

Cause: The District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Board of Trustees continue to exercise adequate oversight of the accounting function.

Management's Response: Management agrees with the finding.